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CONCERN over threats of damaging discrimination against American exports, at a time when the country is confronted by a large deficit in its international balance of payments, has projected the United States into the midst of European trade rivalries. At mid-January meetings in Paris of the United States and Canada with the 18 members of the Organization for European Economic Cooperation, Under Secretary of State Douglas Dillon said this country, subject to the approval of Congress, was "prepared to assume full and active membership" in a reorganized O.E.E.C. The purpose of the enlarged organization, Dillon explained on Jan. 16, would be to "facilitate cooperation between the industrialized nations of the free world in meeting the major economic problems which will face the world during the coming decade."

The 18 O.E.E.C. nations and the United States and Canada are to meet again in Paris on April 21 to consider arrangements for setting up the proposed Atlantic consultative organization. Meanwhile, on March 29, representatives of the same countries will gather in the French capital to take up the reports of working groups that were appointed in January to study problems of commercial policy pertaining to the European Economic Community (Common Market) and the newly formed European Free Trade Association. It is the competition between these two groups, and its potential effects on other countries, that persuaded the Eisenhower administration late last year that it must take action to safeguard the liberal trading principles that have been at the base of U.S. foreign economic policy for the past quarter of a century. In the process the United States has moved to establish closer economic contacts with European countries than ever before.

Ever since the United States undertook the task of promoting European economic recovery after the war, its

spokesmen have extolled the advantages of a large trading area unencumbered by tariff barriers. American support was naturally given, therefore, to developing plans for a European Economic Community of six continental nations. Great Britain's subsequent efforts to make the whole of Western Europe a free trade area, while logically unobjectionable, gave Americans pause. Although the European Free Trade Association eventually formed included only seven nations, organized into what initially at least was a rival group, the possibility of ultimate agreement between the groups intensified fears of discrimination against non-European nations.

Sir Oliver Franks, chairman of Lloyds Bank in London, observed in an address before the trustees of the Committee for Economic Development in New York last Nov. 16 that in 1957, when the European Economic Community actually came into being, Americans began to wonder "whether the Six, surrounded by a common tariff wall, were an advantage" after all. "And when the Seven showed signs of forming a European Free Trade Association, doubts more than doubled. This is the point at which the language of economic blocs began to be employed," and people in this country "feared that a recovered Europe, even though split in two, might be building discriminatory fortifications." Jean Monnet, father of the Common Market, asserted after the Paris conferences in January that any agreement between the two blocs "could only lead to preferential arrangements, harming American exports . . . and dividing Europe from America." [1]

Development of European Economic Community

The Treaty of Rome, signed March 25, 1957, united six continental neighbors—Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany—in the European Economic Community. When the six nations on Jan. 1, 1959, took the first step on a 12- to 15-year schedule for abolition of tariffs and other restrictions on trade with one another, they began what has been called "one of the most important undertakings of the Twentieth Century." [2] President Eisenhower observed in his annual report on the U.S. reciprocal trade agreement program, June 25, 1959: "The Common Market promises to overcome many of the

[1] Interview with *Newsweek*, Jan. 25, 1960, p. 24.

[2] Committee for Economic Development, *The European Common Market and Its Meaning to the United States* (May 1959), p. 11.

divisive national rivalries that have cost Europe so dearly in the past. In promoting international economic strength, the Common Market will also provide a basis for more stable governments and for stronger defensive forces in the interests of world peace and security."

Provisions of the Treaty of Rome calling for coordination of fiscal, monetary, labor and other policies, as well as for elimination of internal trade barriers, made the Common Market more than a customs union. It is, rather, an economic union. The community, moreover, has its own supranational administrative institutions—executive, legislative and judicial. The principal economic features of the plan may be summarized as follows:

(1) Tariffs, quotas and other barriers to trade among the six countries to be progressively eliminated.[3]

(2) A common external tariff, applicable to imports from all countries outside the Common Market, to be imposed starting Dec. 31, 1961.[4]

(3) Restrictions on movement of labor, capital, services, and business enterprise from country to country within the community to be abolished.

(4) Cartels and similar trade-restraining devices to be prohibited, unless they contribute to improvements in production and distribution or to technical and economic progress.

(5) Fiscal and monetary policies of E.E.C. members to be coordinated.

(6) A common agricultural policy to be established.

(7) Two investment funds to be created—one to operate in Europe and the other in territories associated with E.E.C. countries—to channel capital from advanced areas to less developed regions of the community and its dependencies.

(8) Colonies and associated territories to be linked to E.E.C.

(9) Principle of equal pay for equal work to be applied throughout the community.

(10) Members to strive to improve living and working conditions and to equalize such conditions at increasingly high levels.

Unless the transition period is shortened, as is now being considered, the Common Market will not be fully established until 1973. At that time there will no longer be any

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[3] Tariff duties on individual products in intra-community trade were cut 10 per cent on Jan. 1, 1959, and additional 10 per cent cuts were scheduled for July 1, 1960, and Dec. 31, 1961. The Council of Ministers of E.E.C. on March 10, 1960, tentatively approved a proposal to make the two latter cuts 20 instead of 10 per cent. Shortening of the transition period from 12-15 years to 6-8 years had been urged by Walter Hallstein, the West German who is president of E.E.C.

[4] Rates of the common tariff are to be generally at a level midway between the duties previously imposed by the low-tariff members of the community and the duties previously imposed by the high-tariff members. Pending acceleration proposals call for initial application of the external tariff on July 1, 1960, instead of Dec. 31, 1961.

customs duties or other limitations on passage of goods from any one of the six countries to any other. The community will operate as an integrated economic unit, expected by that time to include 175 million people—a unit comparable in size to the current domestic market of the United States.[5] Members of the E.E.C. together already constitute the world's largest importer and second largest exporter. Their economic union is expected to lead to a rise in overall demand within the community, allowing producers to engage in more industrial specialization and mass production with consequent reduction of costs and prices. All this will mean a higher standard of living for inhabitants of the community.

Liberal Trading Principles of Common Market

E.E.C. executives have repeatedly declared that they do not intend to convert the Common Market into a protectionist citadel. President Walter Hallstein said on June 6, 1959: "The whole objective of the Common Market, stated in the agreements, is to increase freer world trade. It will not be an inward-looking, protectionist bloc. It cannot [be] simply because its whole interest is in promoting trade, its whole economy is dependent on trade." The European Economic Commission, which is the community's administrative body, has emphasized that the Rome treaty is in conformity with the General Agreement on Tariffs and Trade, which treats customs unions as instruments of economic expansion, and that the community's common external tariff will make the six nations together less protectionist than they were when pursuing separate trade policies.[6]

Paul van Zeeland, former Belgian Prime Minister, said in a New York speech last November: "The Common Market has never been considered by its authors as an end in itself. It is a means towards an end. That end can be defined as follows: to raise the economic prospects of all the member states and bring a new contribution to economic expansion in the world." Zeeland listed two passages in the Rome treaty to demonstrate the community's devo-

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[5] Although the gross national product of the community is currently only about one-third that of the United States, its rate of growth is noticeably larger and compares favorably with that of the U.S.S.R.

[6] Duties imposed by the common tariff will be generally higher for the Benelux (Belgium, Netherlands, Luxembourg) countries, which have 20 million inhabitants, but lower for France and Italy with 90 million inhabitants. Moreover, the 10 per cent tariff cut on community trade on Jan. 1, 1959, was extended to imports from all GATT countries.

tion to trade liberalization: (1) "By establishing a customs union among themselves, the member states intend to contribute . . . to the progressive abolition of restrictions in international exchanges and the lowering of customs barriers"; and (2) "[The community may conclude agreements with] a third country, a union of states, or an international organization." Preparations to take in Greece and Turkey as associated nations of the community are well under way.

The European Economic Community is more than a customs or economic union. Its members regard it as a stepping stone to political integration. President Hallstein said last December: "The European Community is already in some respects a political community. Its institutional structure is political and its aim is political." [7] President Eisenhower observed on June 25, 1959: "The promise of the Common Market, both for member states and for other countries, is reinforced by the continued emphasis which the E.E.C. Commission has placed upon the open and outward-looking nature of the community. . . . The United States supports the Common Market and the concept of increased European integration underlying it on political, economic and security grounds." Despite such statements, the Committee for Economic Development has warned that formation of the Common Market might nevertheless lead "toward the creation of new regional barriers more dangerous and more durable than present barriers." [8]

Reasons for Organizing Free Trade Association

The threat to British exports posed by the projected leveling of barriers to intra-continental trade gave rise to a proposal for establishment of a general European free trade area in association with the Common Market. Under this proposal, spearheaded by the British, trade between all Western European countries (except in agricultural products) would have become tariff-free at the end of a transition period, but each country would have retained the right to impose its own tariff duties on imports from countries outside of the free trade area. This scheme would have given British exports, for example, free access to the Common Market—and exports from E.E.C. countries

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[7] Interview with Hallstein, *Bulletin from the European Community*, January 1960, p. 2.

[8] Committee for Economic Development, *op. cit.*, p. 11.

free access to the British market—but it would have enabled the United Kingdom at the same time to maintain preferential rates on imports from Commonwealth countries as against imports from countries outside the free trade area.[9]

After more than three years of discussion under O.E.E.C. auspices, the proposal for a European free trade area gave way to the more modest plan for a European Free Trade Association. The convention establishing E.F.T.A. was initialed Nov. 20, 1959, by Austria, Denmark, Great Britain, Norway, Portugal, Sweden and Switzerland—the so-called Outer Seven. The primary purpose of the group was to expand trade among its members to compensate for any loss of trade suffered through operation of the Common Market. It was thought also that the Seven by joining forces could increase their bargaining power in trade negotiations with the Six.

Axel Iveroth, president of the Federation of Swedish Industries, addressing the C.E.D. trustees last November, listed four reasons why the Seven, who do not comprise a natural trading group, undertook to form their own association instead of persisting in the attempt to establish a broader free trade area. First, each of the Seven had different ideas about the form that a larger group should take. Second, they did not wish to join the Common Market and accept the jurisdiction of its supranational institutions. Third, creation of the group was necessary to broaden the markets of its smaller members and thus put their industries in stronger position to withstand competition from the growing industries of the Six. Fourth, "It was of utmost importance to the industries of the Seven countries to get, without delay, a somewhat more concrete idea of what size their future markets would be."

E.F.T.A. differs from E.E.C. chiefly in permitting its members to retain individual tariffs on imports from outside countries. The Seven plan to abolish all tariffs between one another on industrial goods and to introduce special arrangements to expand trade in agricultural and fishery products.[10] British Prime Minister Harold Mac-

[9] See "European Economic Union," *E.R.R.*, 1957 Vol. I, pp. 234-238.

[10] The European Free Trade Area is to be established progressively over a 10-year period. A tariff cut of 20 per cent on July 1, 1960, is to be followed by annual 10 per cent reductions beginning in 1962. The association offered, March 12, to discuss extending the cuts to the Common Market countries on a reciprocal basis.

millan said on Oct. 27, 1959, that E.F.T.A. would "provide for economic and political unity in Western Europe and . . . contribute to a freer trading system throughout the world."

From the economist's point of view, E.F.T.A. is an ill-balanced, artificial creation. One country of the seven, the United Kingdom, exceeds all the others taken together in population, national income, and value of trade. Moreover, the foreign commerce of Austria, Switzerland and Portugal will presumably be benefited in only a minor way, because those countries trade far more with their respective neighbors than with Britain or the Scandinavian countries.[11] Altogether the association will have a market of about 90 million people—a little more than one-half that of the E.E.C.—and a productive capacity equal to about two-thirds that of the Common Market.

Differences in the external tariffs of the Seven are expected to cause some difficulty. Because Denmark, Sweden and Switzerland have generally low tariffs and Austria, Britain and Portugal generally high tariffs, there is danger that outside countries will attempt to ship products to the high-tariff countries via the low-tariff countries. The United States, for example, might ship automobiles into low-tariff Denmark for reshipment duty-free to the United Kingdom. However, in an attempt to solve the problem of origins, the Seven have agreed on a simple rule of thumb: Importers may claim origin within the area if no more than one-half the value of a product consists of non-area materials or if the final manufacturing stage took place within the area and involved certain listed processes.

Threat of Trade War Between the Two Groups

The existence of two new European trade groupings may be expected to generate problems in such areas as trade discrimination, payment difficulties, capital movements, and currency convertibility.[12] Economic experts on both sides of the Atlantic fear that as the internal tariff barriers in the two groups are reduced, a large-scale trade war between them may result. The leaders of both the Six and the Seven realize that the consequences of such a trade war would be harmful for all concerned. However, there are

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[11] "The Outer Seven," *The World Today*, January 1960, p. 16.

[12] National Planning Association, "Strengthening the Organization of the Western Community," Jan. 25, 1960.

genuine differences which have kept the two blocs apart to date and which may keep them separated in the future.

Iveroth, in his address in New York, thought the most noticeable and troubling difference was one of "general outlook, politically as well as spiritually, between the British and the French." The basic economic difference is that the E.F.T.A. is designed to achieve free trade with a minimum of commitments, while the E.E.C. is using free trade as an instrument of economic and ultimately political integration. As a result, the Seven have no plans, as a group, to integrate agriculture or transportation, to free movements of capital and labor, or to harmonize labor costs. The Six, on the other hand, regard their economic association as only the first step toward a broader political association. They have established a Council of Ministers, a 142-man Assembly, and a Court of Justice[13] and, in addition, a European Investment Bank, a European Social Fund, and an Overseas Development Fund. E.E.C. decisions are directly binding in the territory of member states; they do not have to be embodied in national legislation or government decrees.

It is conceivable that the organizations set up to lower trade barriers within a designated area may turn into formidable protectionist blocs. Edmund Taylor, writing recently in *The Reporter*, suggested that "The tension between the Six and the Seven will be hard to dispel because it stems, at least on the continental side, from political and emotional sources, rather than from purely economic ones." He asserted that the split reflected "a kind of nascent little European nationalism which has brought about, at least temporarily, an economic reorganization of Europe."[14] The Common Market has brought France out of economic isolation, it has separated countries like Austria and Switzerland from their natural trading partners, and it has confronted England with a united continental trading bloc.

Acknowledging the threat of a trade war between the two blocs, Hallstein said recently that "We must start as soon as possible to discuss future relations between us [the Six and the Seven]—and in concrete terms. . . . Our

[13] These supranational organs serve also as the executive, legislative and judicial branches of the European Coal and Steel Community and the European Atomic Energy Community.

[14] Edmund Taylor, "Little Europe Gets Bigger and Bigger," *The Reporter*, Jan. 7, 1960, p. 14.

six governments have set up a special committee presided over by the Commission to seek further solutions." [15]

The seven countries of the European Free Trade Association noted in a special resolution on Nov. 20, 1959, that "The existence of two groups . . . inspired by different but not incompatible principles implies the risk that further progress along these lines be hampered, if such a danger could not be avoided by an agreement to which all countries interested in European economic cooperation could subscribe." The Seven emphasized their determination "to do all in their power to avoid a new division of Europe." They regard the association "as a step toward an agreement between all member countries of the O.E.E.C." and say they are ready to initiate negotiations as soon as the Common Market is ready.

Economic experts think that no measure short of an all-embracing free trade area will heal the economic split between the two blocs. The Seven, on the other hand, state that "An agreement, based on the principle of reciprocity, would not cause any damage to the measures taken by E.F.T.A. and the E.E.C." They believe such an agreement "would allow member states of either organization to eliminate in common the obstacles to trade between them and, more generally, to seek to solve the problems they share." [16] However, since such an agreement between the two would naturally discriminate against American trade, it has been opposed by the United States.

U.S. Payments Deficit; Trade With Europe

TRADE ALIGNMENTS of a fully recovered Europe are now recognized as being capable of seriously affecting the imports and exports and the general balance of payments of the United States. Although the value of U.S. trade with European countries was equivalent to less than 2 per cent of the gross national product in 1959, American exports to Europe amounted to $4 billion. Lifting of European quota restrictions on dollar imports, recent European tariff reductions, and the expanding internal market of the

[15] *Bulletin from the European Community*, January 1960, p. 2.
[16] Text of Special Resolution of E.F.T.A., Nov. 20, 1959.

E.E.C. have already brought about an increase in American-European trade. However, a trade war between the two blocs might restrict their imports of American products, increase overall American payment deficits, and augment this country's current outflow of gold.

Growth of Deficit in U.S. Balance of Payments

Fluctuations in the American balance of international payments have mirrored fundamental changes in the world economy since the end of World War II. Through the late 1940s, postwar reconstruction abroad generated large U.S. export surpluses which European countries settled in part by shipping gold to this country; American reserves rose from $20 billion in 1945 to nearly $25 billion in 1949. This phase was terminated at the end of 1949 but was promptly resumed with outbreak of the Korean War in 1950. John J. McCloy, chairman of the Chase-Manhattan Bank, said in New York, Dec. 15, 1959:

> Ever since 1950 the United States has been spending more dollars abroad than other countries have chosen to spend in the United States. In that sense our international payments have long been out of balance. But until 1958 the imbalance was not great—it averaged about $1 billion a year—and for the free world this was healthy. There was a dollar shortage throughout the world, and by running an imbalance in its payments with other countries, the United States made it possible for the rest of the world, and particularly Western Europe, to rebuild its foreign exchange reserves of gold and dollars. World trade could not have increased as it did without this.

McCloy noted that with the onset of a mild world recession in 1957-58, the imbalance in America's foreign payments suddenly increased. The deficit rose in 1958 to $3.4 billion and was accompanied by a sizable outflow of gold.[17] The deficit reached almost $4 billion in 1959. Although the United States still holds $19.5 billion in gold reserves, continuing deficits of this size created uneasiness.[18]

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[17] Six European countries—Austria, Belgium, Great Britain, Italy, the Netherlands and Switzerland—together took 99 per cent of the $2.3 billion of gold shipped from the United States.

[18] Gottfried Haberler, Harvard economics professor, pointed out, however, at a conference on trade policy on Jan. 27: "A large part of our loss of gold . . . merely reflects the increased need and desire of foreign countries for greater international liquidity caused by the growing volume of world trade, progressive dismantling of the apparatus of exchange control, and restoration of free convertibility of currencies. Since gold production is insufficient to satisfy the growing demand for international reserves, the satisfaction of this demand must take the form of gold purchases from the U.S. or accumulation of liquid dollar holdings by foreign central banks in the U.S. It thus depends on the U.S. having a deficit in its balance. . . . It reflects the fact that the U.S. has become the world's banker, that many countries are on a dollar exchange standard—rather than on a simple gold standard—and that the dollar has become the free world's principal reserve currency."

The cumulative $14 billion deficit in payments from 1950 through 1958 did not result from an unfavorable merchandise trade balance. For example, in 1959 merchandise exports, exclusive of military shipments, totaled $16.2 billion, while merchandise imports amounted to only $15.3 billion. But other international payments turned this favorable trade balance of $0.9 billion into a $3.7 billion overall deficit.

Factors Contributing to the Payments Deficit

Foreign economic aid now amounts to about $2.6 billion annually, including $1 billion in loans by the Export-Import Bank, the Development Loan Fund, and other government agencies. The Export-Import Bank, established in 1934, has always required that most of the proceeds of its loans be spent for American goods. Vance Brand, director of the Development Loan Fund, said on Oct. 16, 1959, that from now on most of the money lent by that agency to foreign countries would have to be expended in the United States. This was a major innovation in foreign aid policy. Foreign borrowers previously had been allowed to spend loan proceeds where prices were lower and the money would go further. The policy change was made "in view of the growth in the economic strength of the industrialized countries of the free world." The dual purpose was to encourage foreign countries to expand their own aid programs and to promote American exports.

Military aid, which amounted to about $2.5 billion in 1959, took the form largely of U.S. exports. However, William H. Draper, Jr., chairman of the President's special committee on military aid, said in Washington last Nov. 18 that "The Mutual Security Program is not the culprit that is causing the imbalance today." Opponents of foreign aid have suggested that the balance of payments problem could be easily solved by sharply reducing or eliminating foreign assistance. This is an illusory solution because American military aid in weapons and material mostly takes the form of exports manufactured by American labor and involving no payments overseas. Draper said, "If we are foolish and allow the critics and the isolationists to hamstring this program on the false argument that it threatens our gold reserve, then we will not solve the gold problem, but certainly we will jeopardize our own security and that of the free world."

Maintenance and support of American military bases overseas cost more than $3 billion in 1959. None of the money was tied to exports and the countries receiving the dollars were free to use them as they chose. McCloy pointed out in mid-December that "These establishments lie at the very heart of our defense policy, but there is no denying that they are one of the major elements in the current imbalance in our foreign payments."

Private foreign investment by Americans, actively encouraged by the government over the past decade, has also contributed to the deficit in international payments. Since 1956 this flow of money abroad has averaged more than $2.5 billion a year, but the volume has fallen off recently. Henry C. Alexander, chairman of the Morgan Guaranty Trust Co., said Oct. 17, 1959, that "Until we increase our exports of goods and secure some relief from the heavy burdens of foreign aid, we had better proceed only modestly in promoting, through tax laws, treaties, or otherwise, the movement of private capital abroad."

Charles P. Kindleberger, Massachusetts Institute of Technology economics professor, said in Washington, Jan. 27, that "The two major lines of government endeavor which fit the prescription are removal of foreign restrictions on dollar imports remaining from the long period of dollar shortages, and redistribution of foreign military expenditures and economic assistance to shift the burden away from the United States and to Western Europe." Economists think that removal of foreign discriminations against American goods may make a dent in the payments deficit. Measures advocated recently to assure a sharp cut in the deficit have included a campaign to expand merchandise exports, assumption of a larger share of the foreign aid burden by this country's allies, and promotion of conditions that will attract foreign investment funds to the United States.

Efforts to Expand American Exports to Europe

Merchandise exports showed the same total of $16.2 billion in 1959 as in 1958. However, the Bureau of the Census reported on Jan. 27 that outward shipments in December were the highest in two years, and the National Trade Council predicted a 12 per cent increase in exports in 1960. The Council said on Jan. 18 that it expected a marked pickup in the export of raw cotton, fats and oils,

aircraft, steel and scrap, pharmaceuticals, construction and mining equipment, and electrical machinery. Except for declines in coal and oil shipments to Europe, a general rise in other exports also was foreseen.

The effect of the formation of the two European trade blocs on American exports remains uncertain. A large share of U.S. exports to Europe consists of agricultural products; the E.E.C. has not yet formulated its policy on agricultural imports, and the E.F.T.A. countries have excluded farm products from their agreement. Raw materials, which also constitute a fairly high portion of U.S. exports, come under low European tariffs or none at all and therefore are not likely to be subjected to restrictive measures. American commercial exports to E.F.T.A. countries amounted to $1.4 billion in 1958; shipments to the Common Market countries that year aggregated $2.4 billion. The two groups together took 25 per cent of American exports and supplied about the same share of American imports.[19]

Foreign quotas on the quantities of goods allowed to be imported, as well as high tariffs in some countries, have restricted the flow of American exports. Secretary of the Treasury Robert B. Anderson, told the governors of the World Bank and the International Monetary Fund on Sept. 29, 1959, that there was no longer any reason for other industrialized countries "to favor imports from non-dollar countries over those from dollar countries." Under Secretary of State Douglas Dillon emphasized the administration's drive to eliminate discrimination against American exports at a GATT meeting in Tokyo, Nov. 20, 1959. Dillon said that "The restoration of external convertibility to the main trading currencies of the world . . . has removed any balance of payments justification for discriminatory restrictions by countries whose export earnings are largely in convertible currencies."

Both E.E.C. and E.F.T.A. members have made noticeable progress in removing import quotas. However, the Trade Relations Council of the United States has pointed out that "The recent decisions by France and Great Britain to dismantle their quantitative curbs, directed primarily at dollar imports from the U.S., . . . do not affect the status of European tariffs, many of which are pegged at high

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[19] Edward M. Bernstein, *International Effects of U.S. Economic Policy* (Study paper prepared for congressional Joint Economic Committee, Jan. 25, 1960), p. 11.

levels."[20] Great Britain, for example, has removed quantitative restrictions on the import of American automobiles, but the duty remains at its previous 30 per cent level. Commenting on the European trade blocs, Alfred C. Neal, C.E.D. president, said on Jan. 27 that the United States "must push for a lowering of tariffs all around and particularly for a lowering of tariffs by regional groupings."[21]

The Eisenhower administration is seeking to strengthen the voice of the United States in that direction through becoming an active participant in the Organization for European Economic Cooperation. As that plan takes shape, it is preparing also to make special efforts to swell American exports. President Eisenhower, in a special message to Congress on March 17, outlined a three-point program for this purpose. The State Department will more than double its present total of 112 commercial attaches stationed abroad; the Commerce Department will enlarge its Washington and field staff assigned to the work of informing American businessmen of opportunities for export sales; and the Export-Import Bank will guarantee short-term export credits granted by private banks—not against ordinary commercial risks but against such political risks as war or imposition of foreign government restrictions that would prevent repayment of the obligation on time.

American businessmen were told by H. J. Heinz II, at a meeting of the American Management Association in New York on Jan. 26, that "American products will have the same difficulties in the market of the Six and the Seven that the products of each bloc have in the other." Heinz said that companies should begin to think and plan "in terms of regional rather than just country markets"; that "there is the need of decentralizing international operations on a regional trade basis rather than on a geographical basis"; and that businessmen should "restudy product lines and distribution channels to include diverse national tastes and distribution systems within the possible trade areas."

President Eisenhower in his Economic Report to Con-

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[20] "Some European Trade Discriminations Go, Others Enter," *Tradeways*, January 1960, p. 2.

[21] Another general GATT tariff-bargaining session is scheduled to get under way in September 1960. Negotiations for concessions will be conducted with the Common Market, and presumably also E.F.T.A., as well as among the two score individual countries belonging to GATT.

gress on Jan. 20 said that "Exports should gain from the strong expansion of production and investment that is proceeding in the industrial countries abroad." The report concluded that, except in automobiles and steel, U.S. exports were not generally losing ground in world markets. Chairman Warren G. Magnuson (D Wash.) of the Senate Commerce Committee emphasized last Nov. 12 that "A really significant increase in exports can be achieved only if U.S. products are competitive in price, quality, and suitability, if they are offered on credit terms as favorable as those of our competitors, and if U.S. exporters go after foreign markets with as much competitive vigor as they go after the domestic market."

Concern Over Increase in Imports From Europe

Manufacturers and labor leaders alike have expressed concern over the continuing rise of imports from Europe. The growing volume of automobiles, cameras, typewriters, and other consumer items imported by the United States indicates development of a broad taste for foreign goods among the American people.[22] Commenting on the surging increase of imports, President Eisenhower said in his Economic Report that "United States merchandise imports rose in little more than a year by about 25 per cent from their recession low in the first quarter of 1958. The principal elements in this expansion were the strengthening of demand for industrial materials . . .; the continued rise in purchases of foreign automobiles and other manufactures; and special demand situations relating to meat, steel, and building materials."

The A.F.L.-C.I.O., alarmed by growth of imports from countries with low wage standards, has been urging that the U.S. Tariff Commission be empowered to determine normal levels of domestic output of goods, and "the anticipated needs of our growing population," as a basis for import quotas to prevent foreign inroads on domestic markets. An A.F.L.-C.I.O. resolution, approved by the national convention last Sept. 21, declared that "Mushroom growth of sweatshop industries in exporting countries employing workers at unconscionably low wages under sweatshop conditions must be discouraged by foreign governments as well

[22] Total imports rose from $12.9 billion in 1958 to $15.3 billion in 1959, the highest total on record. Imports last year included $2.6 billion in metals, $2.2 billion in minerals, $1.7 billion in wood and paper, $1.6 billion in machinery and vehicles (up $500 million from 1958), and $1.2 billion in textile fibers and manufactures.

as through the tariff and trade policies of the United States."

While the domestic industries and labor affected by competition of foreign imports have marshaled strong pressures in behalf of higher tariffs and import quotas, the administration has remained committed to a liberal trade policy. Under Secretary Dillon said at the GATT meeting, Oct. 27, 1959, that "Either we move ahead to get rid of outmoded trade restrictions, or we can expect a resurgence of protectionism and restrictive action. . . . Success in this effort is essential to assure economic growth and raise standards of living in the industrialized and less developed nations alike."

Free World Aid to Underdeveloped Countries

There is widespread agreement among economists on both sides of the Atlantic that the free world must mobilize and use its resources as efficiently as possible if it is to meet the challenge of the Communist bloc in extending aid to underdeveloped countries. Sir Oliver Franks said in his speech in New York last November that "If 12 years ago the balance of the world turned on the recovery of Western Europe, now it turns on a right relationship of the industrial north of the globe to the developing south."

Secretary of the Treasury Anderson said on Sept. 28, 1959, that he welcomed return of the industrialized Western European countries "to an economic position where they are capable to an increasing extent of participating, both directly and through financial institutions, in supplementing the basic efforts of the developing countries themselves." Similarly, Barbara Ward Jackson, well-known British economist, observed on Jan. 27 that "Western Europe has recovered its productiveness and must now join with America in a sustained purposeful plan to see that trade, private investment and government-to-government aid all play their essential part in pushing the emergent people through the 'sound barrier' of modernization."

Under Secretary Dillon proposed in Paris on Jan. 12 that the United States and other free world countries join in a coordinated effort to step up aid to underdeveloped nations. A development assistance group of eight Western nations and Japan met in Washington, March 9-11, to discuss closer foreign aid cooperation. Dillon told the other participating

countries that most of them could afford to increase their foreign aid expenditures. Hubert de Besche, deputy secretary general of the Swedish foreign ministry, had asserted in Washington on Jan. 27, however, that "only if the economic split in Europe is repaired" would Europe "be able to join the United States in a really great effort to assist the underdeveloped countries."

The Commission of the Common Market is actively considering a European Community "Marshall Plan" for less developed nations of the free world. In the meantime, investment in underdeveloped areas of the European Economic Community and its dependencies is to be assisted by funds from special financial pools. The Rome treaty provided for a European Investment Bank and a Development Fund for these purposes. The Development Fund will spend approximately $581 million over a five-year period, $511 million of which is to be allocated to the dependent territories of France.[23]

American Moves to Avert Trade Conflict

WHEN the threat of new obstacles to international trade, from a possible European trade war, prompted the United States to move into the middle of European economic affairs last January, Under Secretary Dillon said at Paris: "It is clear that the development of United States commercial policy cannot be divorced from developments in such an important area of world trade as Western Europe. . . . The pursuit of a liberal commercial policy by the United States is essential to the functioning of an effective world trading system. It can be kept liberal only insofar as other major trading countries also pursue liberal policies."

Attempt to Bridge Gap Between "Six" and "Seven"

American interest in closing the gap between the Inner Six and the Outer Seven countries, combined with a desire to mobilize European financial resources to supplement U.S. aid to underdeveloped lands and to remove restrictions against dollar trade, resulted in the special January meet-

[23] France and Germany will each contribute $200 million to the fund, Belgium and the Netherlands $70 million, Italy $40 million, and Luxembourg $1 million. France will therefore be the principal beneficiary.

ing of O.E.E.C. countries with the United States and Canada. The meeting, welcomed by members of both European economic blocs, was suggested by the United States and led by Under Secretary Dillon. American proposals, slightly altered, were those finally adopted. Dillon insisted that the competitive problems of a newly prosperous Europe were a matter of international concern. This approach was welcomed by the E.E.C. nations, who agreed that the economic division of Europe had become an Atlantic problem. The Swiss, the Swedish and the British, on the other hand, made it clear that they regarded the world-wide or Atlantic approach as an evasion of the central problem of European trade.[24]

Dillon brought out at Paris that the United States wanted to establish closer economic ties with the European countries. No machinery now exists to bring about effective coordination of policy between the Six, the Seven, and the United States. John J. McCloy said last Dec. 15: "What is needed is an organization which joins North America to Europe to deal with the problems of the Atlantic world as well as its relations with the less developed lands. We have no institutional arrangement today which can accomplish this." The National Planning Association pointed out on Jan. 25:

> None of the existing institutions within the West are capable of carrying on these internal functions. . . . The O.E.E.C. is too European in its membership, experience and orientation. At the global level are the world-wide economic institutions of the United Nations, which include a large number of non-western countries, communist and non-communist. It would neither be practicable nor desirable to expect these universal organizations to deal with problems within the Western Community.

The association concluded that "Regardless of its specific name and membership, a strengthened organizational framework for the Western Community is today more necessary than ever before."

Plan for an Atlantic Economic Cooperation Group

Dillon told the Paris conferees on Jan. 12 that "Study should be given to revitalizing and broadening the work of the Organization for European Economic Cooperation through the establishment of a successor organization in which the United States could become a full member." He

[24] "Wise Men for Trade and Aid," *The Economist*, Jan. 16, 1960, p. 212.

then proposed a study of ways to set up a 20-nation group, including the United States and Canada, that would change the O.E.E.C. into an O.A.E.C. or Organization for Atlantic Economic Cooperation. It was agreed that the study would be carried out by a working party of four "wise men" from the United States, Britain, France and Greece. Those later named from the respective countries were W. Randolph Burgess, Paul G. Booth, Bernard Clappier, and Xenophon Zolotas.[25]

Representatives of the O.E.E.C., which was formed in 1948 in connection with Marshall Plan aid and the European recovery program, were in agreement that the organization could no longer serve as a negotiating agent between the Six and the Seven. Milton Gilbert, Director of Economic Affairs of the O.E.E.C., said in Washington on Jan. 27 that "While many of the organization's activities have been continuing as in earlier years, it is a fact that in some fields, particularly trade and payments, the work of the organization stalled and there seems to be no mechanism for getting it off dead center."

European Regional Trade Organizations and Gatt

Dillon, speaking in Paris on Jan. 12, said that the "trade problems now emerging in Western Europe" raised many dangers. On one hand was "the danger that these trade problems could lead to political and economic frictions within Europe which might weaken the cohesion of the free world." On the other hand was "the danger that in an effort to solve the regional European trade problem, measures might be taken which could seriously impair the world-wide trading principles established in the General Agreement on Tariffs and Trade." The United States hopes that GATT rules will be observed in any accord between the Six and the Seven and so assure automatic extension to all GATT members of trading benefits given by one group to the other.

Jean Royer, deputy executive secretary of GATT, recalled in Washington on Jan. 27 that at the end of the Second World War "the United States put forward detailed proposals for the organization of a multilateral system of trading," which was realized in GATT in 1947.

[25] The "wise men" represent, respectively, North America, E.F.T.A., E.E.C., and the other members of O.E.E.C. It was decided that a meeting of senior officials of O.E.E.C. and the United States and Canada should be held in Paris on April 21, 1960, to consider the reorganization question. It is doubtful whether approval of American membership by Congress will be sought at the present session.

> The trading nations have agreed [Royer said] on a code of conduct under which they have accepted definite limitations on the right of intervening in the conduct of foreign trade; this club was open to all countries able and willing to accept such commitments. More specifically, the governments have agreed to conduct their trade on the basis of equality of chances, i.e., on a non-discriminatory basis; they have also [agreed] to abandon administrative measures to restrict imports quantitatively and to limit their action to measures involving prices such as tariffs and subsidies.

Royer added that the position of trading countries in the 1960s is quite different from what it was in the immediate postwar period. They now have to struggle with a number of economic issues which have "a very important political flavoring," such as "regionalism and subregionalism,[26] obstacles to the trade of agricultural products, trading relations between industrialized countries and the underdeveloped world, and relations with state-trading countries." Conflicts arising from these issues make it quite clear "that the development of trade in the world requires a machinery capable of facing squarely these awkward problems."

Long-Range Prospects for Freer Trade Conditions

The North Atlantic Treaty Organization and similar defense groups were established because the member nations learned that their separate defense problems were intertwined. Now, as the threat of communism shifts from military aggression to economic competition, the free world finds it necessary to devise instruments for cooperating against a new danger. Meanwhile, creation of two rival trading groups in Western Europe has complicated the problem.

The United States, as an exporting nation, is interested in obtaining tariff reductions and an end to discriminatory trade barriers in Western Europe as a means of strengthening the free world economy. The Committee for Economic Development has said: "Reduction of trade barriers is not only the step most harmonious with our domestic economic interest and with our foreign economic and political interest. It is also the step most truly consistent with the ideal of the free economy that we hold up as a standard at home and abroad." [27]

[26] "The GATT recognizes that closer integration of national economies is a desirable objective and that a customs union may serve to facilitate trade between the participating countries while not raising barriers against the trade of others."—Committee for Economic Development, *op. cit.*, p. 117.

[27] Committee for Economic Development, *op. cit.*, p. 55.

It is possible that the competitive aspects of the two European trade blocs have been overemphasized. Formation of E.E.C. and E.F.T.A. may have been a turning point toward complete free trade in non-farm products in Western Europe. This is what the leaders of the two blocs have been insisting all along.[28] For example, the initial E.E.C. internal tariff cut was extended to all GATT countries, and E.F.T.A. has offered to extend its initial reductions to Common Market countries in return for reciprocal favors.

When the members of both E.E.C. and E.F.T.A. have abolished all their internal trade barriers, it is possible that the two trade blocs will be merged into one. However, long-range economic competition from the Communist state-trading countries raises some doubt as to whether the ideal of a free international economy is practical under present conditions. The C.E.D. concluded in its study of the Common Market that the United States does not have and badly needs "a realistic philosophy for a world in which the relations among national economies are not determined and cannot be expected to be determined entirely by the operation of free international markets in goods and capital."[29]

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[28] Economists such as Milton Gilbert think "Regional progress toward free trade leads inevitably to freer trade on a world-wide basis." Gilbert said on Jan. 27 that "We would not have dollar liberalization in Europe today if the difficult initial steps were not first taken on a regional basis."

[29] Committee for Economic Development, *op. cit.*, p. 12.